ALTERNATE DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division **RESOLUTION T-16720**
Carrier Branch **March 13, 2003**

R E S O L U T I O N

RESOLUTION T-16720. THE EVANS TELEPHONE COMPANY. (U-1008-C). GENERAL RATE CASE FILING IN COMPLIANCE WITH G. O. 96-A, PARAGRAPH VI, AND DECISION NUMBERS 01-02-018 AND 01-05-031.

BY ADVICE LETTER NO. 326 FILED DECEMBER 19, 2001.

Summary

This resolution addresses the General Rate Case filed by Evans Telephone Company (Evans) through Advice Letter (AL) 326 on December 19, 2001 in compliance with D.01-05-031. In AL 326, Evans proposes: a) no change in its rates or charges, b) an intrastate Rate of Return (ROR) of 10.00%, the same granted by T-16007 in 1997 and, c) an increase of $160,863 in its California High Cost Fund-A (CHCF-A) draw for 2003 over its 2002 draw.

This resolution authorizes total intrastate revenue in the amount of $10,282,075 for Evans for the test year 2003. This represents a reduction of $1,313,825 to Evans' estimate of $11,595,900 for total intrastate revenue for 2003. The Total Intrastate Rate Base amount for Evans is $11,278,061 with an overall Intrastate Rate of Return of 10.00% for the test year 2003. Evans had requested a Total Intrastate Rate Base amount of $12,756,407 for an authorized Overall Intrastate Rate of Return of 10.00%. Also authorized by this resolution is California High Cost Fund-A (CHCF-A) support for Evans for test year 2003 of $1,803,612. Evans had requested CHCF-A support for 2003 of $3,627,318.

A comparison of the Commission's and Evans' Test Year 2003 Total Company Results of Operations before any CHCF-A adjustment is attached as Appendix A. Appendix B compares the Commission's and Evans' Separated Results of Operations before any

CHCF-A adjustment. Appendix C compares Evans' and the Adopted Intrastate Results of Operations estimates for test year 2003. Appendix D shows the Commission's calculation of the Net-to-Gross Multiplier and the change in the gross intrastate revenue requirement based on the recommended intrastate rate of return of 10.00%. Appendix E is a copy of the adopted conditions the Commission approved in Decision No. 01-06-084 authorizing the sale of Evans to Country Road Communications in 2001.

Background

The Evans Telephone Company (Evans), a local exchange telephone utility based in Turlock, California, provides local exchange telephone service in portions of Merced, Stanislaus, Santa Clara, and Yolo Counties, serving approximately 12,500 access lines in the following exchanges and rate areas: Guinda, Patterson, Livingston, Capay, Westley, Cressey, and Grayson.

Country Road Communications (CRC) filed an application on September 19, 2000 to purchase Evans Telephone Company. The Commission granted authority to purchase on June 28, 2001, in D. 01-06-084, contingent upon seven conditions as listed in Appendix E.

On December 19, 2001, Evans filed Advice Letter (AL) No. 326 in response to D.01-05-031, in which the California Public Utilities Commission (CPUC) set in motion the waterfall[1] provision in 2002 for six small LECs if they do not each file a General Rate Case (GRC) by the end of 2001.[2] The last GRC filed by Evans was in 1995 through AL No. 206 and its most recent intrastate results of operations was authorized by Resolution T-16007 dated April 9, 1997.

In AL 326, Evans proposes: a) no changes to its rates or charges, b) an intrastate ROR of 10.00%, the same return as granted by T-16007 in 1997, and c) an increase of $160,863 in its CHCF-A draw for 2003 over its 2002 draw for a total of $3,627,318.

Notice/Protests

Evans states that a copy of the Advice Letter was mailed to competing and adjacent utilities and/or other utilities. Notice of AL 326 was published in the Commission

[1] The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the completion of a GRC. The funding levels are 100% of the for the first 3 years, i.e., 1998, 1999 and 2000; 80 % the fourth year, i.e., 2001, 50% the fifth year, i.e., 2002; and 0% thereafter.

[2] The six companies are, Evans Telephone Company, Happy Valley Telephone Company, Ponderosa Telephone Company, Sierra Telephone Company, Inc., Siskiyou Telephone Company and Kerman Telephone Company.

Daily Calendar of December 21, 2001. Notice of the AL filing was made to customers by bill insert on December 19, 2001. No protest to this AL filing has been received.

TD held a Public Meeting in Turlock on August 15, 2002, at which time Evans was given an opportunity to explain its filing to its customers and its customers were given the chance to ask questions of Evans and TD. Evans' customers were given notice of the Public Meeting through bill inserts. The notice of Public Meeting was also published in the CPUC Daily Calendar. One customer attended the Public Meeting.

Discussion

Results of Operations

Appendix A sets forth Evans' total company results of operations for test year 2003, as estimated by the Commission and Evans.

Operating Revenue
A comparison of TD's and Evans' estimates of total operating revenues for test year 2003 is shown in Appendix A. Evans' estimate for total company operating revenues is $14,871,721 a difference of $635,229 from TD's estimate of $15,506,950. The differences between TD's and Evans' estimates are further described below.

In determining the test year Operating Revenues, TD reviewed Evans' methodology, calculations, and assumptions for the proposed test year of 2003. Evans' revenue accounts included both recurring and non-recurring basic local service revenue and recurring customer premises revenue. Evans' revenue estimates are based on a 2.24% yearly growth rate increase that Evans applies to its calculation of six-month actual and six-month annualized 2001 data to estimate revenues for 2002 and 2003. Evans arrived at its 2.24% growth rate by using year-end percent changes to its access line growth from 1996 to 2001 and taking into consideration the loss to second lines due to cellular and cable competition for the years 2002 and 2003.

Based on a regression analysis of Evans' historical average access line growth from 1996 through 2001 TD estimated the growth rate to be 5.65% over the five years. The coefficient of determination from the regression analysis, which measures the strength of the relationship between the actual historical figures and the regression line growth calculations, was 99%. A coefficient of determination closer to one (100%) indicates a greater degree of relationship. In addition, field inspection of Evans' serving areas and information on population and housing growth collected from planning officials of the cities of Patterson and Livingston, supported TD's 5.65% estimate. Therefore, TD did not accept Evans' projections for access line growth.

TD applied the 5.65% five-year growth rate increase to arrive at the 2002 and 2003 average access lines of 13,055 and 13,645, respectively. To arrive at its 2003 estimates, TD then applied the 5.65% percentage growth rate over all individual line items for Evans' basic local service revenue, customer premises revenue, and other local exchange revenue accounts.

For Rent revenues, TD verified Evans' 2001 annual amount to be $67,613. For its 2002 and 2003 revenues, Evans' provided estimates of $56,179 and $48,244, respectively. TD reviewed the years 1997-2001 and calculated the average arithmetic mean to estimate 2002 and 2003 revenues for this item. TD compared its calculations to Evans' and noted that the variance in estimates was not significant enough to justify changing Evans' estimates. Therefore, TD accepts Evans's 2003 estimates, as submitted.

For Other incidental regulated revenues, TD verified Evans' 2001 annual amount to be $113,275. TD reviewed D. 01-02-013 which approved the Settlement Transition Agreement (STA) between Pacific Bell and Small ILECs. TD also verified that Pacific's monthly STA payments to Evans, for SS7 and 800 DB/LNP queries, ended on June 30, 2001. For its 2002 and 2003 revenues, Evans' provided estimates of $1,792 and $1,809, respectively. TD reviewed the supportive documentation for all remaining items encompassed in other incidental regulated revenues and accepted Evans' 2003 estimates, as submitted.

For access revenues, Intrastate - intraLATA and interLATA, Evans used a five-year average percentage rate over access minutes of use (AMOU) billings from 1995-2000 to estimate 2003 revenues for these items. Evans derived a 9.1% increase for intraLATA minutes and a 3.6% increase for interLATA minutes. However, TD did not accept Evans' projections. TD reviewed Evans' AMOU from 1996 through 2001 and compiled the historical average AMOU growth amounts for intraLATA and interLATA. TD then tested these growth amounts using regression analysis. The coefficient of determination of the regression analysis is 91% for intraLATA and 95% for interLATA. TD's calculations of the growth rate amounts and the average percentage rates for intraLATA and interLATA, for the test year 2003, indicated 5.05% and 10.35% growths, respectively. TD then applied these percentage growth rates over access minutes of use billing to arrive at its 2003 access revenue estimates.

For Federal USF support, TD verified Evans' 2001 "high cost loop fund (USAC)" annual amount to be $468,895. To reflect the actual federal universal service fund support for 2002, TD requested that Evans provide a copy of its disbursement notices received from the National Exchange Carrier Association (NECA). The notice from NECA showed that Evans' actual 2002 "high cost loop fund (USAC)" amount as $436,716. TD used this figure as Evans' 2002 federal USF support. For its 2003 estimate, Evans provided a copy of the 2003 USF annual compensation estimate of $68,455, that it provided to NECA. TD verified and accepted this estimate.

Evans' CHCF-A support request for test year 2003 is $3,627,318. TD finds reasonable Evans' estimate for this item based on present rates and conditions. However, upon TD review of the rates and charges of services offered by Evans, TD recommends reducing Evans' 2003 CHCF-A support to $1,762,497.

For Directory revenues, TD did not accept Evans' projections for directory revenues, where no methodology was applied. TD 's regression analysis found the coefficient of determination to be too low at 68%. TD calculated a five-year average percentage rate increase of 3.19% using data from 1997 to 2001 to estimate 2003 revenues for this item.

TD did not accept Evans' projections for other incidental revenues - late charges, because Evans failed to demonstrate a reasonable estimation method. TD's regression analysis found the coefficient of determination to be too low at 68%. TD calculated a five-year average percentage rate increase of 1.62% using recorded 1997 to 2001 data to estimate 2003 revenues for this item.

TD did not accept Evans' projections for uncollectibles, because Evans failed to demonstrate a reasonable estimation method. TD used the six-year average percentage rate over basic local service billings from 1996 to 2001 of 1.5% to estimate 2003 uncollectibles.

Operating Expenses

The purpose of the expense estimates is to set an expense level for ratemaking and not necessarily to estimate any particular expense or component of expense. For the expenses, the utility provided recorded expense levels for years 1996 through 2000. For 2001, Evans used a six-month recorded expense and annualized this value for the 2001 estimate. Evans then used the 2001 estimate to estimate the expenses for 2002 and 2003 by increasing it for inflation.

Since Country Road purchased Evans expense levels increased significantly, primarily in the administrative and general expense categories. In general, there was a fairly consistent historical expense level through the year 2000, prior to the acquisition, with a substantial increase in 2001. Many of the expense estimates increased by a factor of 2.5 or more from the recorded pre-2001 levels.

TD used the 2001 annual report to update the 2001 expenses to actual recorded numbers. The accounts are reported in several separate components: salaries, benefits, rent and other. These components were analyzed graphically. There seems to be no consistent relationship between salaries and benefits. TD reviewed the recorded expenses using two-year through six-year constant dollar averages and choosing the three-year average because it is more representative of average expense levels for rate setting.

TD used a constant dollar average method based on three years of recorded expenses adjusted for inflation with the inflation factors developed by the Office of Ratepayer Advocates. The labor adjustment factor was used for salaries and benefits while the non-labor factor was used for all other category components. While expenses have been increasing in nominal dollars, when one applies the constant dollar method and adjusts the recorded figures to base year constant dollars, there is less of a variance and in many cases, the inflation-adjusted figures remained relatively flat. TD used Evans' recorded expense figures as reflected in the utility's workpapers and annual reports for the years 1999, 2000 and 2001[3] and then applied the inflation factors for labor and non-labor for each year. [4]

The expense accounts are separated into four general categories. These categories are Plant Specific, Plant Non-specific, Customer Operations and Corporate Operations. Within each of these there are sub-accounts that are separated into each of the components. For some components, TD's estimates were above those of Evans. However, in general the estimates were below those of Evans for the test year. TD's estimates are generally above the historical levels for the expenses.

Plant Specific Expenses

Plant specific expenses include expenses related to telephone plant. These include components for motor vehicles, other vehicles, land and building, furniture and expenses related to cable wiring and central office equipment. TD's estimate for Plant Specific expenses is $1,773,170 for 2003. Evan's estimate is $1,916,538 for 2003.

Plant Non-Specific Expenses

Plant Non-Specific expenses include such expenses as those related to network administration, testing, engineering access to the network and power. TD's estimate for Plant Non-Specific expense is $632,700 for 2003. Evan's estimate is $834,024 for 2003.

Customer Operations Expense

[3] Form M Schedule I-1 (FCC Armis 43-02 Report Format) of Evans's Annual Reports for 1999, 2000 and 2001.
[4] TD used the Office of Ratepayers Advocates estimates of Non-Labor and Wage Escalation Factors for 2002-2004 from the March 2002 DRI-WEFA U.S. Economic Outlook as follows:

Year	Labor	Non-labor
1999	1.022	1.007
2000	1.034	1.036
2001	1.028	1.000
2002	1.016	1.000
2003	1.017	1.022

Customer operation expense includes expenses related to call completion services, number services, customer services, customer billing and carrier access billing. TD's estimate for customer operations expense is $1,406,895 for 2003. Evan's estimate for 2003 is $1,674,404.

Carrier access billing expense showed a substantial increase for 2001. In response to a TD data request, Evans reported that the expense for this function was recorded in the general and administrative and information management expense in prior years. The amounts were removed from those corporate expense categories and transferred to the carrier access billing expense category. The amount transferred in 2001 was $124,902.70 from information management and $23,500 from general and administrative. In addition, Evans reported that there were additional amounts related to three customer service representatives for the period 2000 to 2003.

Corporate Operations Expense

The corporate operations expense includes five categories of expenses. They are Executive and Planning, General and Administrative, Accounting & Financial, Human Resources and Information Management. The corporate operations expense has shown a significant increase in expense levels even though some of the expenses were, as described above, transferred from the corporate operations expense to the customer operations expense.

TD's corporate expense estimate for 2003 is $3,412,432. Evans' corresponding estimate is $4,454,705 for 2003. There are significant differences in the estimate of corporate expense for the year 2003. After an analysis of each component of each expense category in the corporate expense, the major difference is in General and Administrative Expense, Other component. The other component includes expense-other than salaries and benefits.

The purchase of Evans by Country Road resulted in a very significant increase in General and Administrative expenses over the historical levels. Subsequent to the purchase by Country Road, the local management has remained essentially the same with the people performing the same management and administrative functions. The only difference is the change in ownership.

The purchase by Country Road should not have resulted in an increase in operating expenses since Decision (D.) 01-06-84, Appendix A, Adopted Condition 2 stated: "Evans Telephone shall not increase rates for its customers due to any increase in costs brought about by its acquisition by Country Road and Evans Holdings." Because of this condition, TD recommends that the additional general and administrative expenses attributed to the acquisition of Evans by Country Road should be disallowed.

On September 4, 2002, TD requested specific information on Evans corporate fees for 1999 through 2003. The written response dated September 11, 2002 states that "during 1999 and 2000 the expenditures relate primarily to the Evans Family corporate operation expense. There was less involvement of the Evans Family related to the detailed operations of the company, for 2001, 2002 & 2003 the expenditures relate to Country Road Communications." Evans also stated that, "Country Roads Communications provides greater day to day involvement in the operations of the company and is much more analytical."

However, as stated in Appendix E, Adopted Condition 3 of D 01-06-084, "Evans Telephone shall manage its finances on a stand-alone basis, independent of Country Road, CRC Communications of California, and other affiliates. " Clearly, to have so much money charged by Country Road for functions that have been sufficiently provided in the past by Evans' own staff is unnecessary.

The customers of Evans should pay for administrative and general expenses that are required for the operation of the company and not for additional layers of management and for expenses related to the strict reporting requirements of the banks and lenders that are required because of the debt level of its parent corporation.

Additional Expense Adjustments

Upon receiving additional and updated information from the utility TD recognizes the need for additional adjustments to expenses related to its adjusted access line growth estimates. The utility has demonstrated a need for additional employees to undertake the increased workload of the additional access lines and resulting customers. TD finds this need to be reasonable and therefore has increased its estimates for the following categories Customer Operations, Corporate Operations, and Plant Specific expenses. These increases are further explained below.

The Plant Specific expense estimate has been increased for the addition of two employees. These employees are an Outside Technician and an Inside Technician at a total cost of $120,270.

The Customer Operations expense estimate has been increased for the addition of two employees. These employees are a Service Center Representative for residential services and a Customer Service Representative for business services at total cost of $100,695.

The Corporate Operations expense estimate has been increased for the addition of three employees. These employees are a President, Programmer, and Systems Operator at a total cost of $294,632.

Depreciation

Both TD and Evans applied the same depreciation rates to average plant in service. The significant differences in the depreciation estimates are due to several items. Evans had initially planned to retire some switching equipment in 2001 for $2,100,000; however the equipment was not retired. Also in 2001, the depreciation accrual for General Purpose Computers was $22,521 while the recorded amount in Evans' annual report for 2001 was $212,520. Therefore TD used the recorded number from the annual report. The $212,520 figure closely matched the depreciation accrual calculated from the depreciation rate for that account.

Depreciation Reserve

Evans supplied workpapers showing the historical development of its test year depreciation reserve. In the workpapers, the accruals and retirements were often lumped together with other debits and credits. TD separated the accrual and retirement from the amount recorded and entered the excess as an adjustment. The historical depreciation reserve was not changed.

For 2002 and 2003, Evans included a cost of removal along with retirements. On inquiry, Evans stated that the cost of removal was based on a historical relationship between retirements and cost of removal. TD's analysis showed that for the test year Evans' cost of removal was a constant 97.4% of the estimated retirement and this figure was applied to all retirements regardless of the type of plant and the need for removal. Retired computers, licensed vehicles and underground cable each had associated with it a 97.4% cost of removal. Because the historical records did not show any relationship for cost of removal for retired plant, TD removed these amounts. Evans estimated the cost of removal for 2002 at $355,240 and for 2003 the amount was $326,146. For 2001 the recorded cost of removal was $2,976 even though Evans estimated some substantial retirements including $2,100,000 for switch equipment. TD estimated the cost of removal at $800 for 2002 and $1,200 for 2003. TD's total depreciation reserve estimate is $24,734,600, an increase of $2,636,950 over Evans' estimate of $22,097,651 for the test year.

Taxes

The differences in tax estimates are due to variations in Evans' and TD's estimates of income, revenue and expense. TD and Evans each used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a federal income tax rate of 34.00%. The interest deduction for Evans was originally a nominal amount for each year calculated at 5% of the total debt. Subsequently Evans provided an amortization schedule for debt of $1,750,000 and the interest calculated in the amortization was used in the TD income tax calculations. TD's estimates for Total Company Federal and State taxes are $849,642and $242,329 respectively for the test year.

Rate Base

Evans' estimate of average plant-in-service for test year 2003 is $37,724,333. TD's total company telephone-plant-in-service estimate is $38,674,940. This difference of $950,607 is the result of one adjustment by TD to Evans' estimate as described below:

TD's adjustment to plant-in-service was to reinstate $2,100,000 of digital switch equipment that had been scheduled for retirement in 2001. Evans informed TD that the equipment would remain in use and therefore should be included in current plant estimates.

In estimating its test year Rate Base, Evans included Construction Work in Progress (CWIP). Evans has verified with TD that their estimated amount of $358,237 is for short term CWIP. TD also recognizes that Resolutions T-16697 and T-16707 authorized CWIP for the accompanying utilities. Therefore TD, finding Evans estimate reasonable recommends the inclusion of Evans short term total company CWIP estimate in the amount of $358,237.

Evans used 0.69% of the average plant balance in determining its test year total company materials and supplies estimate of $259,444. Based on the recorded ratio of materials and supplies expense to plant in service for the past five years 1997-2001, TD finds Evans estimates for this item to be unqualified. TD estimates a materials and supplies expense of $166,302 for the 2003 test year. TD's estimate is based on a five year recorded average of 0.43% of average plant balance for the years 1997-2001.

TD estimates Evans 2003 test year working cash requirement to be $716,843. This is $144,145 lower than Evans estimate of $860,988. This difference is due to TD's lower operating expense and higher revenue estimates.

Separations

Evans provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because Evans' property serves both jurisdictions, the utility's revenues, expenses, taxes, investments, and reserves are allocated between interstate and intrastate services.

Separations is the process of apportioning a telephone company's property costs, related reserves, operating expenses and taxes, and revenues between the state and interstate jurisdictions. It is a vehicle by which a telephone company can separately identify the amount of expenses, investments and revenues associated with the production of a given service. These apportionments are made on the basis of relative usage and direct assignment whenever possible. The costs to be apportioned are identified in the FCC Part 36 separations manual, according to the classification of accounts as prescribed by the FCC's Part 32, Uniform System of Accounts (USOA) for Telecommunications Companies.

Evans used separation factors based on its 2000 cost studies. TD reviewed Evans' separation factors and finds them to be reasonable. Therefore, TD used the separation factors provided by the company to separate its estimates of total company expenses and plant to derive TD's estimate of Evans' intrastate results of operations.

Appendix B compares Evans' and the Commission's interstate and intrastate results of operations for test year 2003 using these separation factors.

Cost of Capital

Evans requests an overall intrastate rate of return of 10.00%, the rate of return authorized by the Commission for Evans in 1997 by Resolution T-16007.

The Return on Equity for all rural ILECs should be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar. However, as a matter of practice, Decision D.97-04-036 in A.95-12-073[5] adopted an 'overall' rate of return of 10.00% for all rural ILECs. Based on information provided, TD recommends that the Commission approve Evans' request for an overall rate of return of 10.00% at this time. This approval should not set a precedent for any future or pending small ILEC GRC proceeding.

Net-to-Gross Multiplier

The net-to-gross multiplier indicates the unit change in gross revenues required to produce a unit change in net revenues. Appendix D shows TD's computation of Evans' net-to-gross multiplier. The net-to-gross multiplier of 1.66208 means that a change of $1,662 in gross revenue would be required to produce a change of $1,000 in net revenue. For Evans, based on an adopted state rate base of $11,278,061 and an adopted rate of return of 10%, the adopted intrastate revenue requirement change required is $2,156,254.

CHCF-A Support

In 2002, Evans' draw from the CHCF-A was $3,466,455.

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[5] In D. 97-04-036 the Commission authorized California-Oregon Telephone Company a 10.00% return on rate base for its 1997 test year as requested in A. 95-12-073 (California-Oregon's 1997 General Rate Case application).

Appendix C shows Evans' intrastate results of operations using the 10.00% intrastate rate of return.

For test year 2003, TD 's computation of Evans' CHCF-A requirement is $1,762,497 based on TD's projected revenues, expenses, rate base and overall intrastate rate of return.

Comments

The alternate draft resolution of Commissioner Brown on this matter was mailed to the parties in accordance with PU Code Section 311 (g)(1).

On March 4, 2003 Cooper, White and Cooper, LLC (Cooper) filed timely comments on the behalf of Evans. Cooper raised the following issues with the draft resolution:

1. The growth factor used for the expense forecasting methodology is to low.
2. Test year revenues must be reduced.
3. An adjustment for rate case expenses must be made.
4. Portions of disallowed corporate operations expense should be allowed.

In its comments Evans requests a 3% growth rate because ORA accepted this rate proposed by Kerman in its GRC application. Evans argues that this factor is more realistic and should be used over that used in the alternate because it results in an increase of $208,163 for its intrastate test year expense estimate.

Evans' argument for a 3% factor was not supported with specific operational expenses that would justify a growth of 3%. However, we recognize that Evan's and Kerman Telephone Company are both small Central Valley telephone companies, which are more likely to experience similar operational expense growth than that reflected in the national average. Further, the information necessary to evaluate various factor growth methods - national versus company specific - would better be addressed in a General Rate Case review. Therefore we find that a 3% escalation factor strikes the appropriate balance between the escalating expenses experienced by Evans and the relatively flat inflation factors prevailing in the national economy.

Evans estimated that expenses would rise by 4.2% in 2002 and 5% for 2003. Evans escalation factors were driven primarily by increases in labor costs. These increases in labor costs were driven in turn by increases in the costs of health insurance, wages and other increases.

Our adopted expense figures for test year 2003 are developed as follows: We used Evan's recorded 2001 figures adjusted for ratemaking and then applied an inflation factor of 3% to adjust expenses for 2002 and for the test year of 2003. The following expense accounts were adjusted, Plant Specific, Plant Non-Specific, and Corporate Operations. We find that a 3% escalation factor strikes an appropriate balance in Evans' operating environment.

TD tested Evans' calculation by applying the 3% inflation factor to those accounts that utilized CDM with a resulting total company expense increase of $146,700, not $208,163, as estimated by Evans.

In regards to its comments on revenues Evans' contends that a 10-year average should be used rather than 5 years because the 5-year trend was influenced by a year where access line growth spiked due to pent up demand, and that it excludes a year where Evans' experienced an access line decrease. Evans therefore proposes the commission adopt a lower growth rate with a resulting revenue decrease of $125,348.

We believe that the 10-year access line growth rate of 4.147% balances both high and low periods of growth and will be the most representative of the conditions Evans' will operate under during the test year of 2003. The 10-year growth rate estimate based on the staff regression analysis has a coefficient of determination of 99%. We have therefore adjusted TD's access line growth estimate accordingly.

Evans contends the expenses associated with the rate case filing should be included in the test year. This change results in an increase to intrastate corporate expenses of $39,710. We believe that this is an appropriate forecast of the expenses associated with a general rate case, which occurs on a three-year cycle. To create the annual revenue level for this expense, we take the expenses allocated under Federal separation rules to the state jurisdiction and include it in the test year.

Evans argues that the alternate incorrectly disallows the following portions of its corporate operations expense estimates related to its holding company (CRC). Evans classifies these expenses as "technology related" and "operations related" expenses.

The inclusion of $139,870 for technology related expenses Evans argues should be included because "CRC brings technology expertise (to Evans) that simply did not exist prior to its acquisition".

We decline Evans request for the holding company technology expertise expense. At this point, Evans has not demonstrated that this increased level of holding company expense has brought any specific benefit to Evans' customers, and approving this adjustment would fail to comply with D.01-06-084, which prohibits increases in costs simply because of the fact of CRC acquisition. Further, such generalized expertise as a result of the merger should be considered a merger benefit to be reflected in efficiencies.

In comments Evans requests an increase of an additional $268,000 for operations related holding company expenses because, "CRC…enhances Evans' ability to meet the changing dynamics of its customer base in an increasingly uncertain telecommunications environment and to execute on those plans". These needs are met Evans' argues through the implementation of the following projects: 1) access to after-hours customer support, 2) an upgrade in telecommunications service offered to the Rumsey Band of Indians, 3) an upgrade to the switching platform in the Patterson exchange.

Upon receipt of Evans' comments TD contacted the utility to request documentation related to Evans' request for an additional $268,000 it contends is related to the implementation of three projects that CRC provided assistance with. Evans' informed TD that it could not provide any expense documentation specific to the three projects it estimated totaled $268,000. Due to Evans' inability to provide any documentation TD cannot support Evans' request for an additional $268,000 to be included in the corporate expense estimate.

Evans' demonstrates by these examples that since its purchase by CRC it has begun implementation of projects with the added insight of CRC. However, it has not nor is it able to provide any documentation supporting the expenses associated with these projects. We realize the benefits of these projects and therefore grant Evans' 15% of the $268,00 they have requested. This amount is granted with the understanding that Evans' and CRC have solidified a beneficial relationship for the customers of Evans' but that unless they are able to adequately report expenditures to be reviewed by the Commission for regulatory purposes those amounts will not be allowed.

Commission approval is based on the specifics of this Advice Letter and does not establish a precedent for the contents of any future filings by small ILECs.

Findings

1. Evans filed its GRC on December 19, 2001, with a Test Year of 2003 in compliance with Decision No.01-05-031.

2. Evans requests the following for test year 2003:

- No change in its rate or charges,
- An intrastate rate of return of 10.00%, the same return granted to them in its last GRC filing in 1997, and
- An increase in its CHCF-A draw for 2003 over 2002 of $160,863 for a 2003 CHCF-A support of $3,627,318.

3. The following is recommended by the Commission for Evans for test year 2003:

- A total intrastate rate base amount of $11,278,061; and
- An Intrastate Rate of Return of 10.00%.
- A California High Cost Fund-A (CHCF-A) support of $1,803,612 representing a reduction of $1,823,706 from Evan's CHCF-A 2003 support estimate;
- A revenue requirement reduction of $1,823,706;

4. We find Evans' comments requesting a 3% expense inflation factor to be reasonable and modify the Plant Specific, Plant Non-Specific, and Corporate Operations expense estimates accordingly as shown in Appendix C.

5. We find Evans' comments on revenues to be reasonable and apply a 10-year average to access line growth rather than the proposed 5-year average and modify the local revenues estimate accordingly as shown in Appendix C.

6. We find Evans' comments requesting an additional $39,710 for rate case expenses to be included in the corporate operations expense estimate to be reasonable. We have therefore modified the corporate expense estimate accordingly as Shown in Appendix C.

7. We find an increase of $40,200 for the corporate operations expense estimate related to the three projects identified in Evans' comments for expenses related to CRC to be reasonable. This represents 15% of the $268,000 adjustment proposed by Evans' due to a lack of supporting evidence. This adjustment is included in Appendix C.

8. We accept TD's recommended overall rate of return of 10.00% for Evans.

9. We find Evans' Depreciation Study previously approved by the Commission, as part of its 1997 rate case is acceptable for ratemaking purposes for the test year 2003.

10. We find TD's recommended reduction of CHCF-A support for Evans for 2003 acceptable. The reduction in CHCF-A support is based on our Intrastate Results of Operations for Evans for test year 2003.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2003 identified in Appendix C are adopted for The Evans Telephone Company.

2. The overall intrastate rate of return of 10.00% is adopted for Evans.

3. Evans' CHCF-A yearly support for 2003 is $1,803,612 with a resulting monthly support of $150,301.

4. This resolution directs TD in concert with the Information and Management Services Division to pay Evans monthly support payments in the amount indicated above in accordance with the payment timeline set forth in D.01-09-064. The payment of monthly support to Evans is contingent on the availability of funds and the Commission and State adoption of the budgets covering the payment for the 2003 CHCF-A support. Each monthly support payment is to be made within 30 days after the close of each calendar month. Should the monthly support payment due Evans not be paid within 30 days after the close of each calendar month, TD shall include in those payments interest equal to the 3-month commercial paper rate.

5. This resolution also directs TD to pay interest on the January 2003 monthly support payment.

6. Evans' depreciation study is adopted.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 13, 2003. The following Commissioners approved it:

William Ahern
Executive Director

APPENDIX A

EVANS TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
PRESENT RATES
TEST YEAR 2003

	Evans			TD		
	Total Company	Interstate	Intrastate	Total Company	Interstate	Total Intrastate
OPERATING REVENUES						
Local Revenues	3,978,263		3,978,263	4,297,238		4,297,238
CHCF-A	3,627,318		3,627,318	3,627,318		3,627,318
Intrastate:						
InterLATA Access Revenues	1,716,279		1,716,279	1,446,020		1,446,020
LATA Toll Revenues	1,921,527		1,921,527	2,382,117		2,382,117
Interstate:						
Access Revenues	3,381,527	3,275,821	105,706	3,344,276	3,275,821	68,455
Miscellaneous Revenues	342,519		342,519	352,513		352,513
Less: Uncollectibles	(95,712)		(95,712)	(67,880)		(67,880)
Total	14,871,721	3,275,821	11,595,900	15,381,602	3,275,821	12,105,781
OPERATING EXPENSES						
Plant Specific	1,916,538	428,423	1,488,115	1,808,370	404,243	1,404,127
Plant Non-Spec.(less Depr'n)	834,024	189,996	644,028	645,300	147,003	498,297
Customer Operations	1,674,404	317,132	1,357,272	1,406,895	266,466	1,140,429
Corporate Operations	4,454,705	893,234	3,561,471	3,625,242	726,915	2,898,327
Subtotal	8,879,671	1,828,785	7,050,886	7,485,807	1,544,628	5,941,179
Depreciation & Amortization	3,044,009	702,885	2,341,124	3,201,100	739,160	2,461,940
Taxes Other Than on Income	165,319	38,003	127,316	76,424	17,570	58,854
State Income Tax	238,258	60,657	177,601	398,823	83,974	314,849
Federal Income Tax	835,368	212,673	622,695	1,398,334	294,426	1,103,908
Total	4,282,954	1,014,218	3,268,736	5,074,681	1,135,129	3,939,552
Net Revenues	1,709,096	432,818	1,276,278	2,821,114	596,064	2,225,050
RATE BASE						
2001 - Property, Plant & Equipment	37,724,333	8,672,078	29,052,255	38,674,940	8,891,369	29,783,571
2002 - Property Held for Future Use	0	0	0	0	0	0
2003 - Tel. Plant Under Constr. ST	358,237	82,352	275,885	358,237	82,359	275,878
2004 - Tel. Plant Under Constr. LT	0	0	0	0	0	0
1220 - Materials and Supplies	259,444	61,772	197,672	166,302	39,597	126,705
- Working Cash	860,988	197,924	663,064	716,843	164,802	552,041
Less: Depreciation	(22,097,651)	(5,106,813)	(16,990,838)	(24,734,600)	(5,716,166)	(19,018,434)
Less: Deferred Tax & Customer CIAC	(573,458)	(131,827)	(441,631)	(573,500)	(131,800)	(441,700)
Total	16,531,893	3,775,486	12,756,407	14,608,222	3,330,160	11,278,062
Rate of Return	10.34%	11.46%	10.00%	19.31%	17.90%	19.73%

APPENDIX B

EVANS TELEPHONE COMPANY
SEPARATED RESULTS OF OPERATIONS AT PRESENT RATES
TEST YEAR 2003

			Utility Exceed Staff Estimate	
	Evans	Staff	Amount	Percentage
OPERATING REVENUES				
Local Revenues	3,978,263	4,297,238	(318,975)	-8.02
CHCF-A	3,627,318	3,627,318	0	0.00
Intrastate:				
InterLATA Access Revenues	1,716,279	1,446,020	270,259	15.75
LATA Toll Revenues	1,921,527	2,382,117	(460,590)	-23.97
Interstate:				
Access Revenues	3,381,527	3,344,276	37,251	1.10
Miscellaneous Revenues	342,519	352,513	(9,994)	-2.92
Less: Uncollectibles	-95,712	-67,880	(27,832)	29.08
Total	14,871,721	15,381,602	(509,881)	-3.43
OPERATING EXPENSES				
Plant Specific	1,916,538	1,808,370	108,168	5.64
Plant Non-Spec.(less Depr'n)	834,024	645,300	188,724	22.63
Customer Operations	1,674,404	1,406,895	267,509	15.98
Corporate Operations	4,454,705	3,625,242	829,463	18.62
Subtotal	8,879,671	7,485,807	1,393,864	15.70
Depreciation & Amortization	3,044,009	3,201,100	(157,091)	-5.16
Taxes Other Than on Income	165,319	76,424	88,895	53.77
State Income Tax	238,258	398,823	(160,565)	-67.39
Federal Income Tax	835,368	1,398,334	(562,966)	-67.39
Total	4,282,954	5,074,681	(791,727)	-18.49
Net Revenues	1,709,096	2,821,114	(1,112,018)	-65.06
RATE BASE				
2001 - Property, Plant & Equipment	37,724,333	38,674,940	(950,607)	-2.52
2002 - Property Held for Future Use	0	0	0	0.00
2003 - Tel. Plant Under Constr. ST	358,237	358,237	0	0.00
2004 - Tel. Plant Under Constr. LT	0	0	0	0.00
1220 - Materials and Supplies	259,444	166,302	93,142	35.90
- Working Cash	860,988	716,843	144,145	16.74
Less: Depreciation	-22,097,651	-24,734,600	2,636,949	-11.93
Less: Deferred Tax & Customer CIAC	-573,458	-573,500	42	-0.01
Total	16,531,893	14,608,222	1,923,671	11.64
Rate of Return	10.34%	19.31%		

APPENDIX C

THE EVANS TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS AT ADOPTED RATE OF RETURN
TEST YEAR 2003

	Evans Proposed	TD Proposed	Utility Exceed Staff Amount	Percentage	Adopted
OPERATING REVENUES					
Local Revenues	3,978,263	4,297,238	(318,975)	(8.02)	4,297,238
CHCF-A	3,627,318	1,803,612	1,823,706	50.28	1,803,612
Intrastate:					
InterLATA Access Revenues	1,716,279	1,446,020	270,259	15.75	1,446,020
LATA Toll Revenues	1,921,527	2,382,117	(460,590)	(23.97)	2,382,117
Interstate:					
Access Revenues	105,706	68,455	37,251	35.24	68,455
Miscellaneous Revenues	342,519	352,513	(9,994)	(2.92)	352,513
Less: Uncollectibles	(95,712)	(67,880)	(27,832)	29.08	(67,880)
Total	11,595,900	10,282,075	1,313,825	11.33	10,282,075
OPERATING EXPENSES					
Plant Specific	1,488,115	1,404,127	83,988	5.64	1,404,127
Plant Non-Spec.(less Depr'n)	644,028	498,297	145,731	22.63	498,297
Customer Operations	1,357,272	1,140,429	216,843	15.98	1,140,429
Corporate Operations	3,561,471	2,898,327	663,144	18.62	2,898,327
Subtotal	7,050,886	5,941,180	1,109,706	15.74	5,941,180
Depreciation & Amortization	2,341,124	2,461,940	(120,816)	(5.16)	2,461,940
Taxes Other Than on Income	127,316	58,854	68,462	53.77	58,854
State Income Tax	177,601	153,633	23,968	13.50	153,633
Federal Income Tax	622,695	538,661	84,034	13.50	538,661
Total	3,268,736	3,213,088	55,648	1.70	3,213,088
Net Revenues	1,276,278	1,127,807	148,471	11.63	1,127,807
RATE BASE					
2001 - Property, Plant & Equipment	29,052,255	29,783,571	(731,316)	(2.52)	29,783,571
2002 - Property Held for Future Use	0	0	0	0.00	0
2003 - Tel. Plant Under Constr. ST	275,885	275,878	7	0.00	275,878
2004 - Tel. Plant Under Constr. LT	0	0	0	0.00	0
1220 - Materials and Supplies	197,672	126,705	70,967	35.90	126,705
- Working Cash	663,064	552,041	111,023	16.74	552,041
Less: Depreciation	(16,990,838)	(19,018,434)	2,027,596	(11.93)	(19,018,434)
Less: Deferred Tax & Customer CIAC	(441,631)	(441,700)	69	(0.02)	(441,700)
Total	12,756,407	11,278,061	1,478,346	11.59	11,278,061
Rate of Return	10.00%	10.00%			10.00%

APPENDIX E

ADOPTED CONDITIONS

(Decision 01-06-084)

The authority granted by this decision is contingent upon the following conditions:

1. Evans Telephone shall not sell any assets used or useful in the provision of its regulated services to satisfy debt obligations incurred by Country Road or Evans Holdings to finance the acquisition of the Evans Telephone or Evans Communications.

2. Evans Telephone shall not increase rates for its customers due to any increase in costs brought about by its acquisition by Country Road and Evans Holdings.

3. Evans Telephone shall manage its finances on a stand-alone basis, independent of Country Road, CRC Communications of California, and other affiliates.

4. Country Road and Evans Holdings shall provide Evans Telephone with sufficient equity capital to maintain a reasonable and balanced capital structure and to provide service to the public that is safe, reliable, and in compliance with all applicable statutes and Commission orders.

5. Evans Telephone shall comply with all existing and future affiliate rules and reporting requirements.

6. Evans Telephone shall not pay a dividend, loan money, or provide any other forms of capital to Country Road, Evans Holdings, or other affiliates if doing so would jeopardize the utility's ability to provide reliable service at reasonable rates.

7. Country Road shall invest approximately $11 million in network infrastructure for Evans Telephone over the next five years and increase the offering of broadband and other services to Evans Telephone customers, over current levels, without increasing local rates.

(END OF APPENDIX E)